

Economic Indicators

Prepared by the Department of Finance • July 2016

*The purpose of this report is to keep policy makers apprised of changes in
the national and local economies that
the Montgomery County Department of Finance
believes may impact current and/or future revenues and expenditures.*

*This report is also available through the Internet
on the Montgomery County Web Page:
<http://www.montgomerycountymd.gov>*

For questions regarding this report, please contact:

*David Platt
Chief Economist
Montgomery County Department of Finance
101 Monroe Street, 15th Floor
Rockville, Maryland 20850*

*Phone: (240) 777-8866
Email: David.Platt@montgomerycountymd.gov*

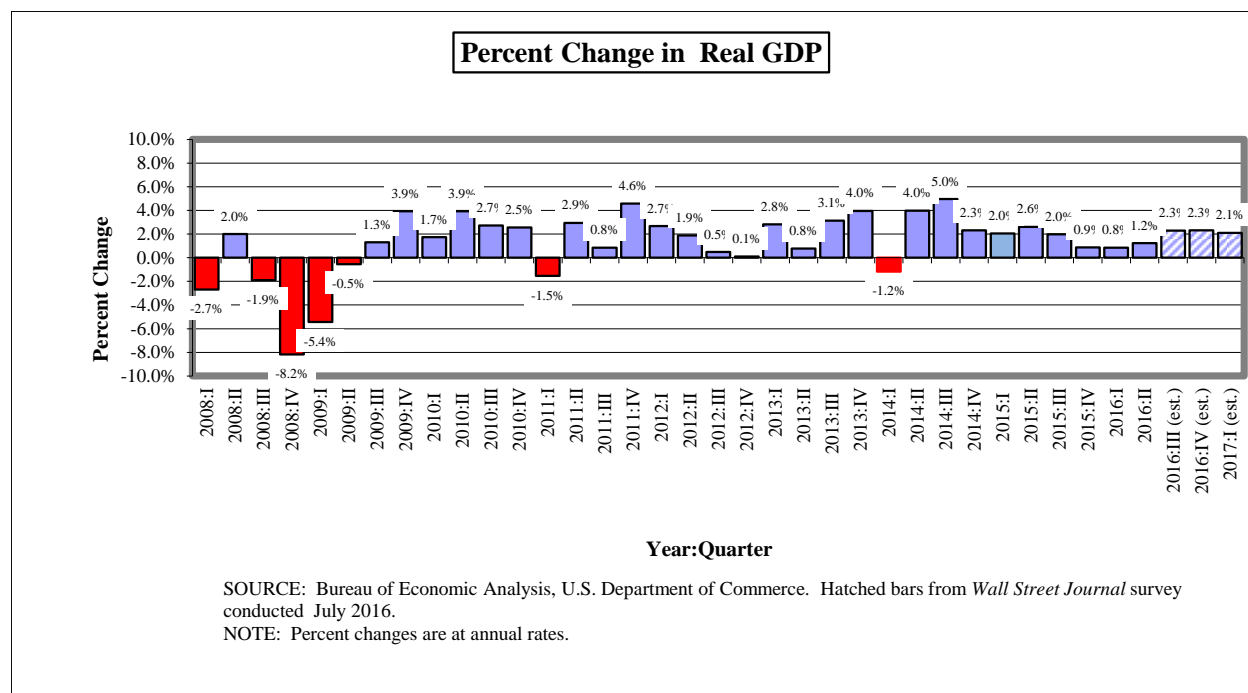
INTRODUCTION

This quarterly report provides an analysis of national, state, regional, and Montgomery County economic indicators for the second quarter of calendar year (CY) 2016 and completed fiscal year (FY) 2016. For this report, the fiscal year covers the July 2015 to June 2016 period. The data presented in this report are not seasonally adjusted to ensure comparability among the national, state, regional and Montgomery County economic indicators. Since the data are not seasonally adjusted, the comparative periods for the quarterly data are the second quarter of this calendar year and the second quarter of calendar year 2015. The only data that are seasonally adjusted are the national real gross domestic product (GDP) and its components.

NATIONAL ECONOMY

According to the advance estimate by the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, real gross domestic product (GDP) increased at a 1.2 percent seasonally adjusted annual rate during the second quarter of 2016. That increase followed an increase of 0.8 percent during the first quarter. Based on the *Wall Street Journal* (WSJ) July survey of sixty economists, the average of the responses expect economic growth to increase 2.3 percent during the current third quarter, and 2.3 percent during the fourth quarter of this year. Based on the forecast for the next two quarters of 2016, the survey of economists by *The Wall Street Journal* estimates that real GDP will increase 1.7 percent in 2016 and 2.2 percent in 2017. Following its June 2016 meeting, the Federal Open Market Committee (FOMC, Committee) of the Board of Governors of the Federal Reserve System released its latest economic projections from 2016 to 2018. Real GDP is expected to increase between 1.9 and 2.0 percent in 2016, between 1.9 and 2.2 percent in 2017, and between 1.8 and 2.1 percent in 2018. However, both the FOMC projections and the WSJ survey were done before the second quarter real GDP was released by the BEA on July 29th which was below economists' average forecast of 2.5 percent. According to WSJ (7/30/16), "economic growth is now tracking at a 1.0 percent rate in 2016." This growth rate represents the "weakest start to a year since 2011." WSJ also reports that the weak economic growth during the first half of this year "makes for an annual average rate of a 2.1 percent growth rate since the end of the recession (CY2009) and the weakest pace of any expansion since 1949."

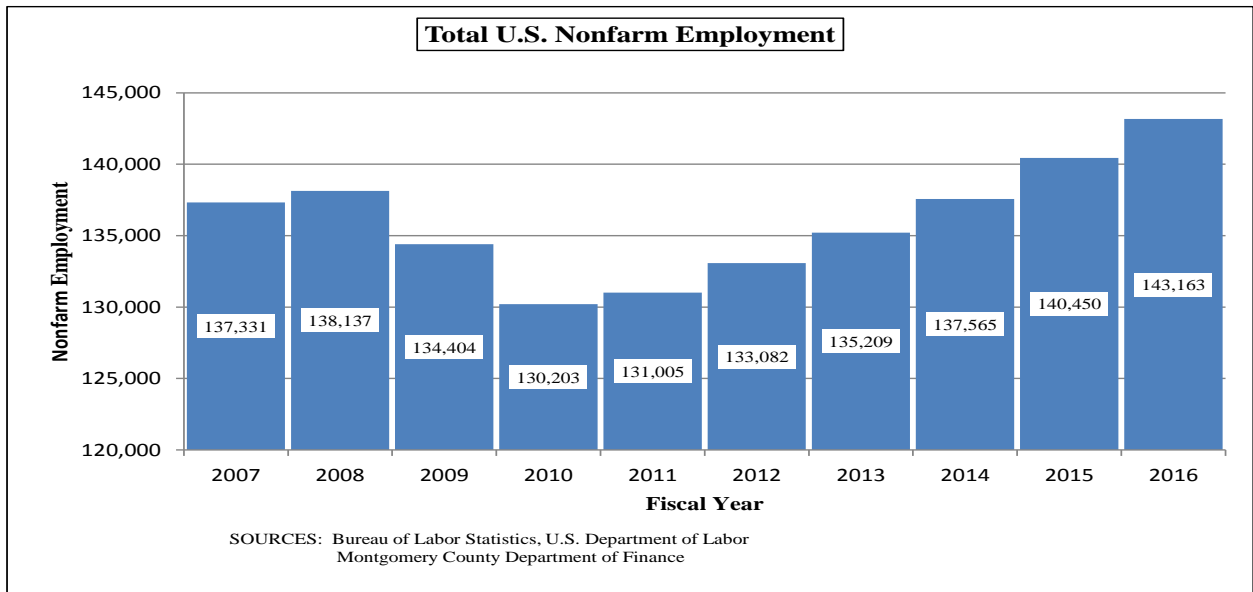
Data released by BEA for the second quarter showed that the increase in real GDP was largely attributed to an increase in personal consumption expenditures (↑2.9% - compared to an increase of 4.2% during the first quarter). Purchases of nondurable goods increased 6.0 percent and purchases of durable goods were up 8.4 percent. However, real non-residential fixed investment decreased 2.2 percent which followed a 3.4 percent decrease during the first quarter. Residential real estate also decreased during the second quarter with residential fixed investment decreasing 6.1 percent which followed increases of 7.8 percent in the first quarter and 11.5 percent during the fourth quarter of 2015.



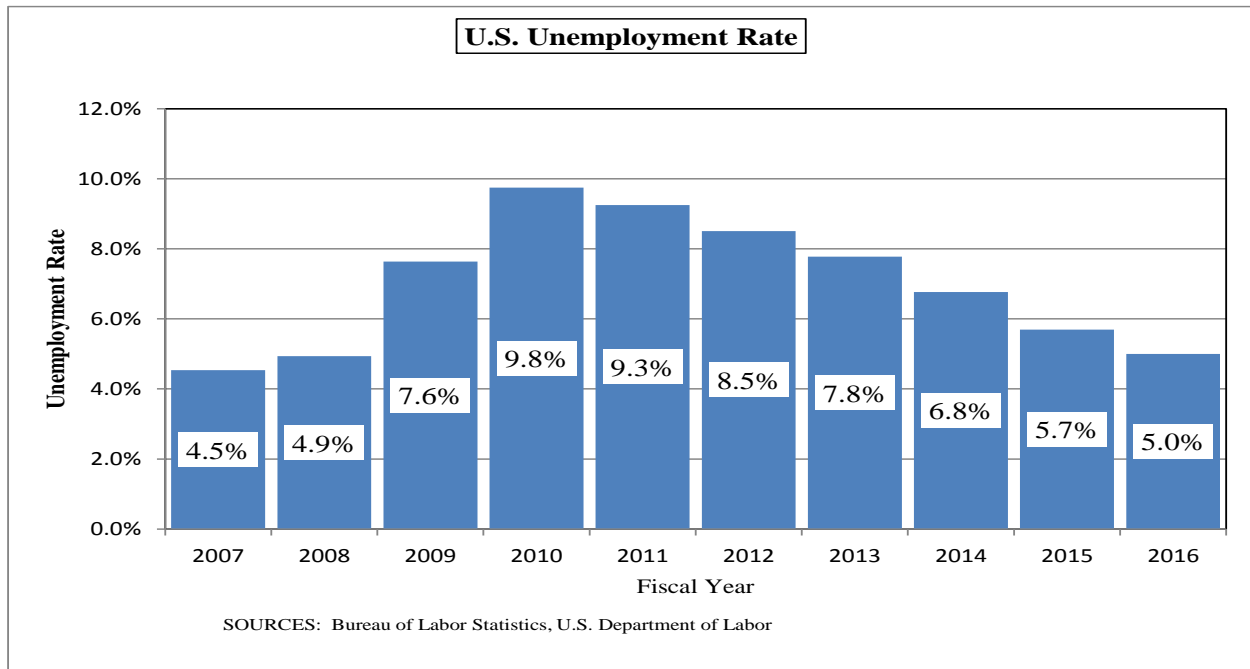
Real final sales of domestic product (real GDP less the change in private inventories) increased 2.4 percent in the second quarter compared to an increase of 1.2 percent during the first quarter. Real final sales are a good measure of future production. If the growth rate in real final sales exceeds the growth rate for GDP over an extended period of time, it indicates strong demand and an expansion of the national economy. For the second quarter, the percent increase in real final sales (2.4%) was greater than the percent increase in real GDP (1.2%) which suggests that future growth in real GDP through the remainder of 2016 may experience stronger growth compared to the first two quarters.

Sales of existing homes increased 4.2 percent during the second quarter compared to the second quarter of 2015. Median home prices for existing homes increased 4.9 percent during the second quarter of 2016 compared to a 7.6 percent increase during the same period in 2015. The inventory level decreased 5.5 percent during the second quarter compared to the same quarter in 2015. That decline is the fifth consecutive quarterly decrease in inventory levels. With home sales increasing and a decrease in inventory during the second quarter, the national real estate market continues to show signs of improvement. Both the National Association of Realtors (NAR) and the Mortgage Bankers Association (MBA) forecast that sales of existing homes will increase between 3.6 percent and 4.8 percent in 2016 and between 1.8 percent and 4.9 percent in 2017. Thirty-year fixed rate mortgages are expected to average 3.7 percent in CY2016 and 4.2 percent in CY2017.

Monthly national employment, as measured by the survey of establishments (Current Employment Statistics), averaged 144.6 million (not seasonally adjusted) during the second quarter of this year – an increase of over 2.5 million or 1.8 percent from the second quarter of 2015. Employment reached nearly 143.2 million in fiscal year 2016 – an increase of over 2.7 million or 1.9 percent from fiscal year 2015 – and the second largest increase in the past nine years.



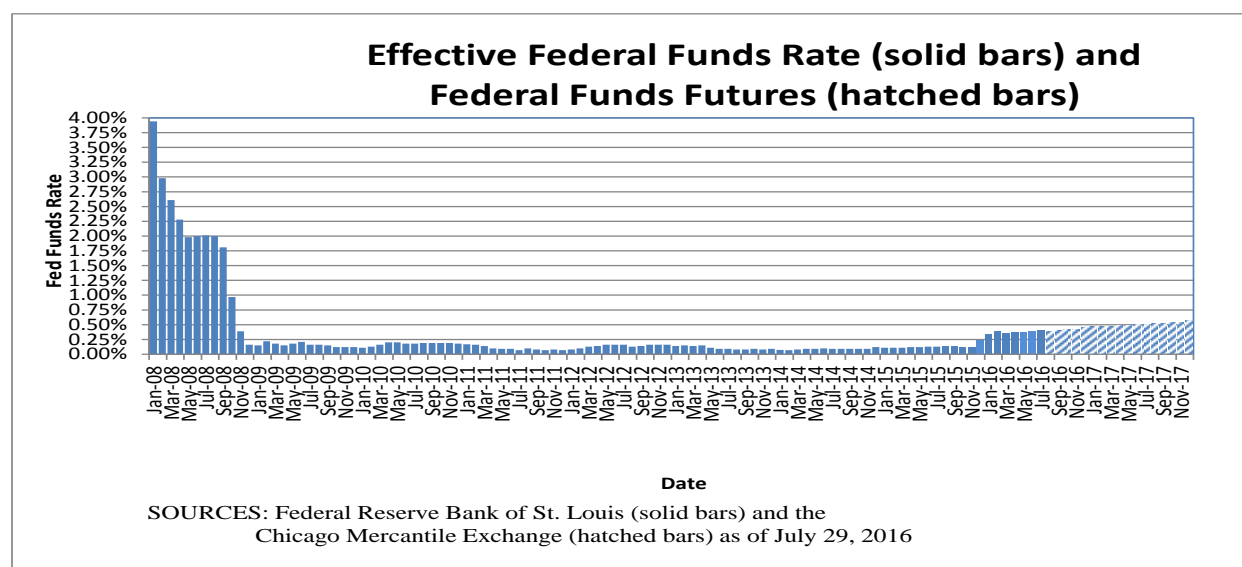
The unemployment rate during the second quarter stood at 4.8 percent (not seasonally adjusted) and was an improvement from the 5.3 percent in the second quarter of 2015. For fiscal year 2016, the unemployment rate declined 0.7 percentage points from 5.7 percent in fiscal year 2015 to 5.0 percent in fiscal year 2016. The July survey of economists by *The Wall Street Journal* expects the jobless rate to be at 4.8 percent by December 2016. Both the WSJ July survey of economists and the economic projections by the FOMC in June suggest that the unemployment rate will gradually decrease to 4.6 percent by the end of 2017.



Inflation, as measured by the personal consumption expenditure (PCE) index, the preferred measure of inflation used by the FOMC, will increase from 0.9 percent as of June to 2.0 percent by 2017. The survey of economists by *The Wall Street Journal* suggests that inflation, as measured by the consumer price index (CPI), will increase to 2.2 percent by December 2017.

Subsequent to the July 26-27 meeting of the FOMC, they stated that “information received since the FOMC met in June indicates that the labor market strengthened and that economic activity has been expanding at a moderate pace. On balance, payrolls and other labor market indicators point to an increase in labor utilization in recent months. Household spending has been growing strongly but business fixed investment has been soft. Inflation continued to run below the Committee’s long-run objective, partly reflecting earlier declines in energy prices and decreasing prices of non-energy imports.” Based on the review of the outlook for the economic activity and the labor market, the Committee voted to maintain the targeted federal funds rate at the current 0.25 to 0.50 percent range.

Following its June meeting, the FOMC released its latest forecast of rate increases - the “dot plot”. The average of responses indicated increasing the target federal funds rate to 0.83 percent in 2016, 1.63 percent in 2017, 2.27 percent in 2018, and 3.12 percent thereafter. While the increase in 2016 exceeds that of the federal funds futures market, it should be noted that all of the responses ranged from 0.625 percent to 1.375 percent and the majority of responses ranged between 0.625 percent and 0.875 percent. However, since the more recent meeting of the FOMC in July and the release of the second quarter GDP by BEA, the futures market for the 30-day federal funds rate remains at or below the 0.50 percent level through December 2016. According to the Chicago Mercantile Exchange’s implied probability data, the first rate increase would not occur until CY2017. However, the July *WSJ* survey projects on average that the federal funds rate will reach 0.61 percent by December 2016 and 1.24 percent by December 2017. The survey also reported that the average of the responses expect the next rate increase in December 2016.



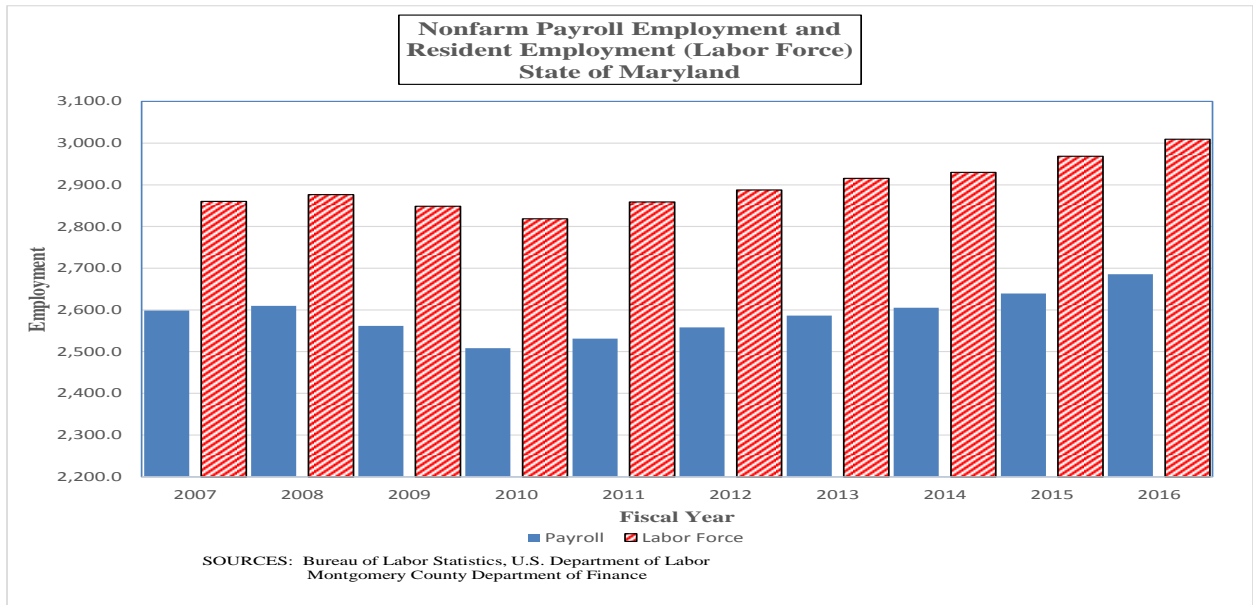
After experiencing a mixed performance during the first quarter of 2016, the returns in the stock market were also mixed in the second quarter. The Dow-Jones Industrial Average was up 1.38 percent in the second quarter compared to 1.49 percent in the first quarter; the Standard & Poor's 500 increased 1.90 percent compared to a 0.2 percent increase in the first quarter; the NASDAQ continued to decline in the second quarter with a decrease of 0.56 percent compared to a decrease of 2.75 percent during the first quarter resulting in a decrease of 3.29 percent for the first half of 2016; and the Russell 2000 increased 3.10 percent in the second quarter that followed a 1.92 percent decline in the first quarter. Overall, three of the four indices increased during the first half of 2016 with the exception of the NASDAQ. However, during July, all four stock market indices experienced positive returns with the DJIA up 2.80 percent, the NASDAQ up 6.60 percent, the S&P 500 up 3.56 percent, and the Russell 2000 increased 5.90 percent. Based on a 252-day trading period and on an annualized rate based on the rates through July, all four indices could experience a December-over-December increase in 2016: DJIA (↑5.78%), NASDAQ (↑3.09%), S&P 500 (↑6.34%), and the Russell 2000 (↑7.40%).

STATE AND REGIONAL ECONOMY

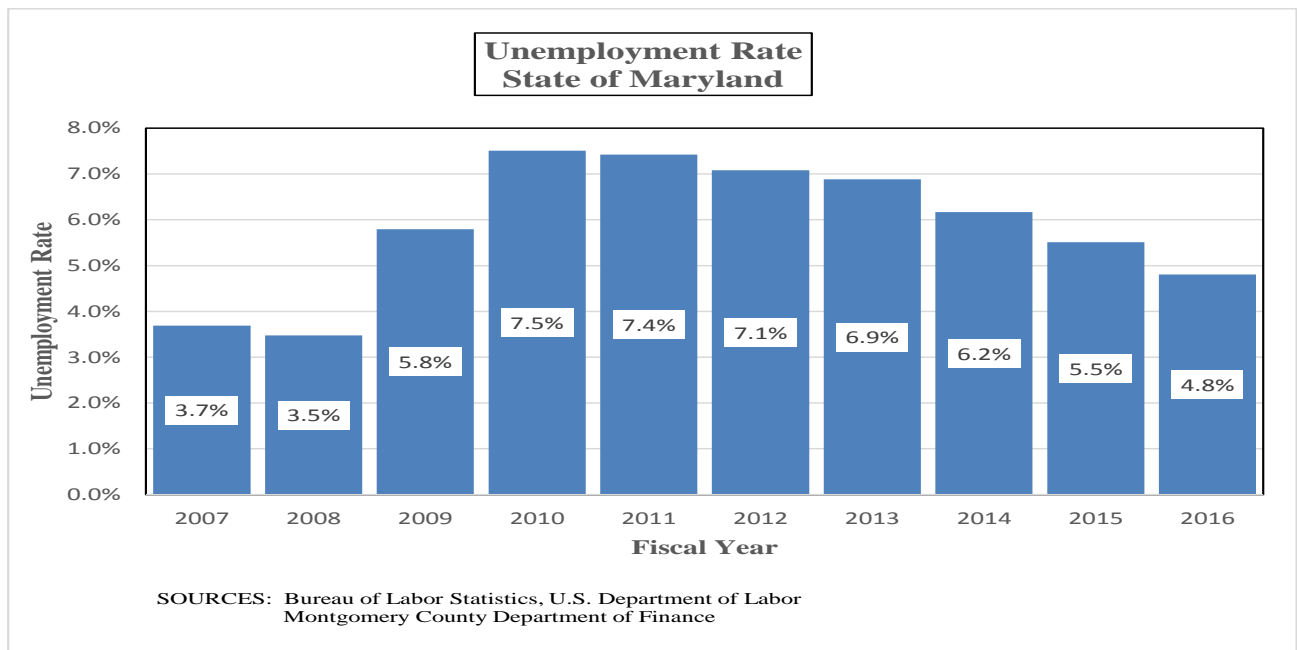
Each month, the Federal Reserve Bank of Richmond (Baltimore Branch) provides the results of the Maryland Survey of Business Activity. According to the latest survey results, “business activity in Maryland was modest in July.” According to the survey:

“The Maryland economy improved moderately in July. Overall business conditions were modest, sales were flat but there was solid hiring and investment. Importantly, expectations rebounded after a sharp decline in June. The survey results continue to indicate a somewhat sluggish and uneven economy during the first seven months of 2016.”

According to the payroll employment data from the Bureau of Labor Statistics, U.S. Department of Labor and based on the survey of establishments, monthly payroll employment in the State of Maryland averaged 2.728 million during the second quarter of 2016 – an increase of 2.1 percent from the second quarter of 2015. In fiscal year 2016, payroll employment in Maryland reached 2.686 million - an increase of 1.7 percent from fiscal year 2015.

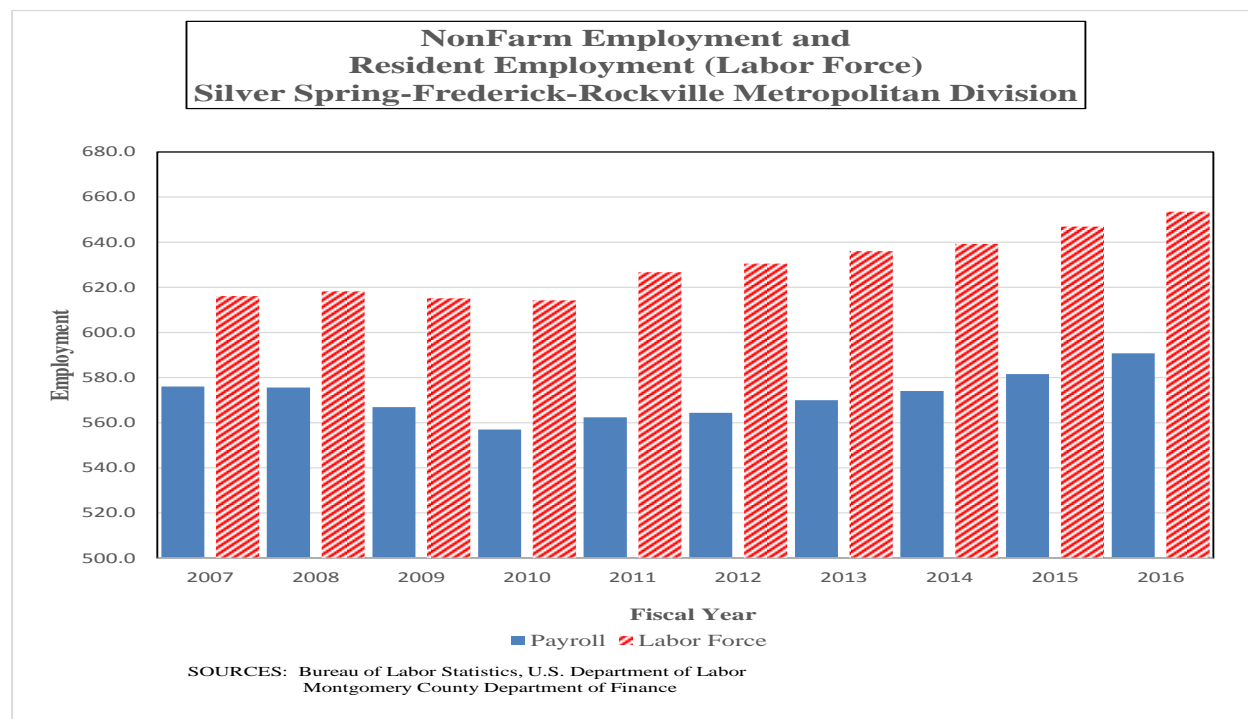


According to the labor force data, the State's resident employment increased 1.2 percent from 2.991 million during the second quarter of 2015 to 3.026 million in the second quarter of this year. The State's unemployment rate declined from 5.2 percent in the second quarter of 2015 to 4.3 percent in the second quarter of this year. On a fiscal year basis, the unemployment rate declined from 5.5 percent in FY2015 to 4.8 percent in FY2016.

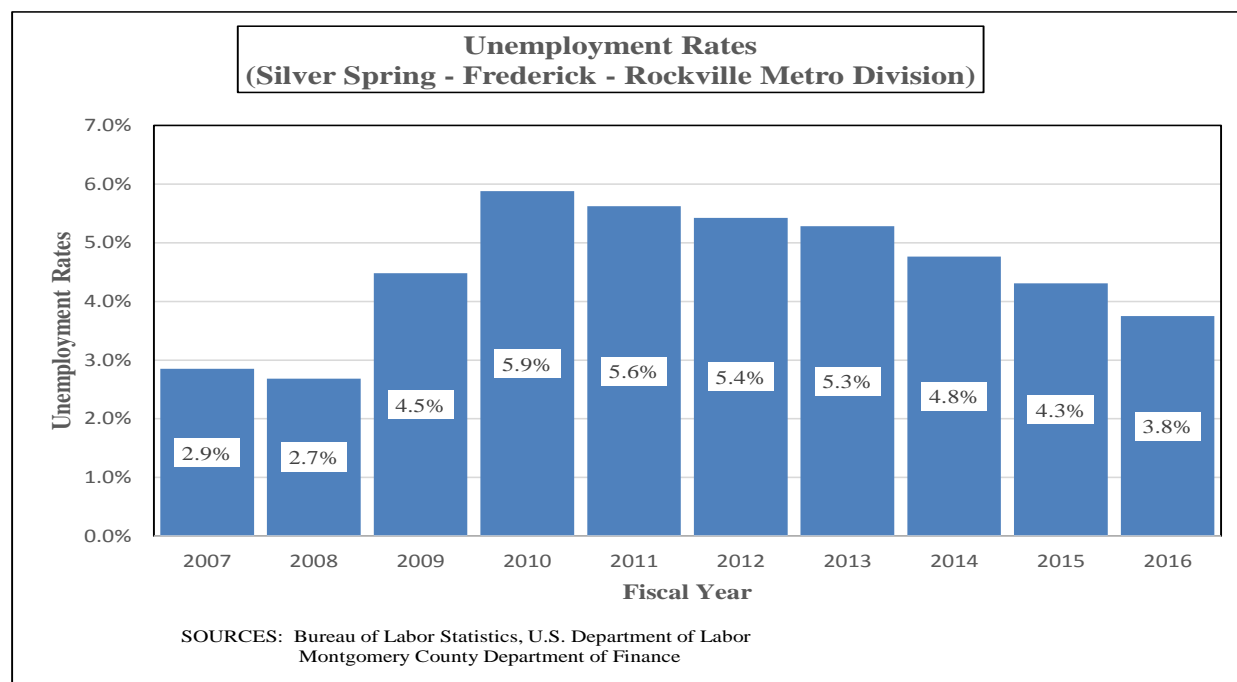


Monthly payroll employment for the Silver Spring-Frederick-Rockville (SSFR) metropolitan division averaged 597,500 during the second quarter and was above employment in the second quarter of 2015 ($\uparrow 1.5\%$). That rate of growth was slightly below the second quarter growth rate

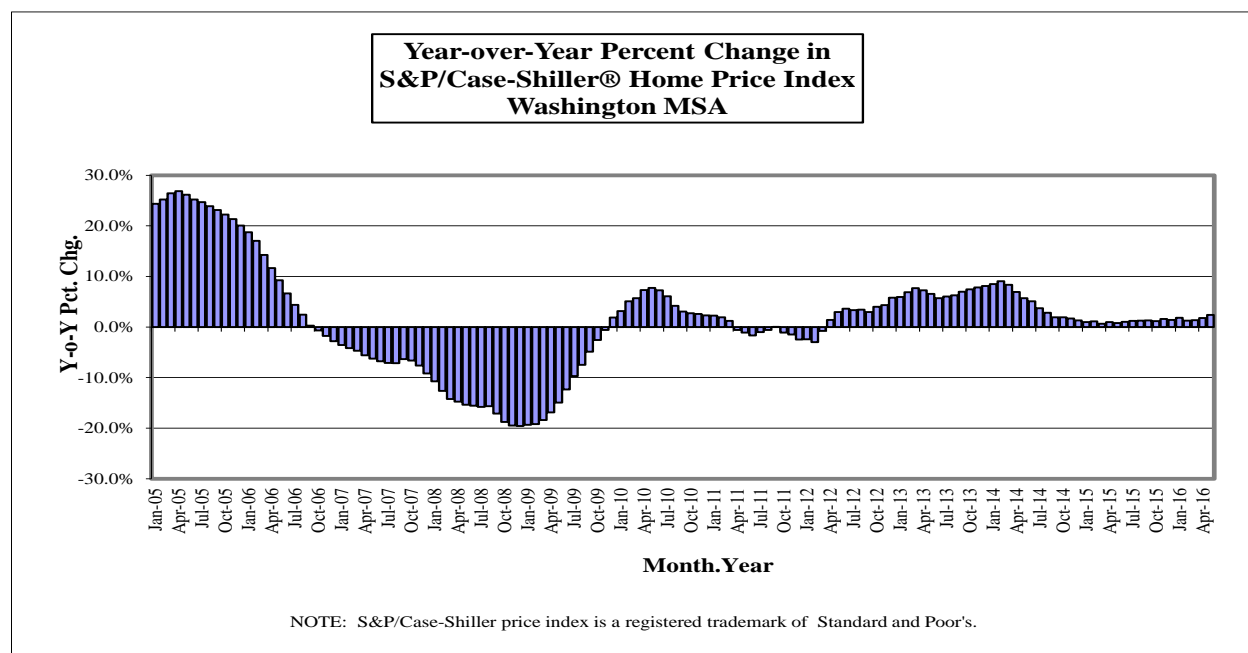
for the State ($\uparrow 2.1\%$). On a fiscal year basis, payroll employment increased 1.6 percent over FY2015 to 590,800. Resident employment, as measured by the household survey, averaged nearly 652,553 during the second quarter – an increase of 0.3 percent over the second quarter of 2015. On a fiscal year basis, resident employment was 653,537 in FY2016 – an increase of 1.0 percent.



The unemployment rate for the division is either the lowest or one of the lowest among the 34 national metropolitan divisions and the monthly average was 3.5 percent during the second quarter of 2016 – a decrease from the rate of 4.1 percent during the second quarter of 2015. For fiscal year 2016, the unemployment rate was 3.8 percent compared to 4.3 percent in fiscal year 2015. Both the unemployment rates for the second quarter and the fiscal year were below the State's unemployment rates.

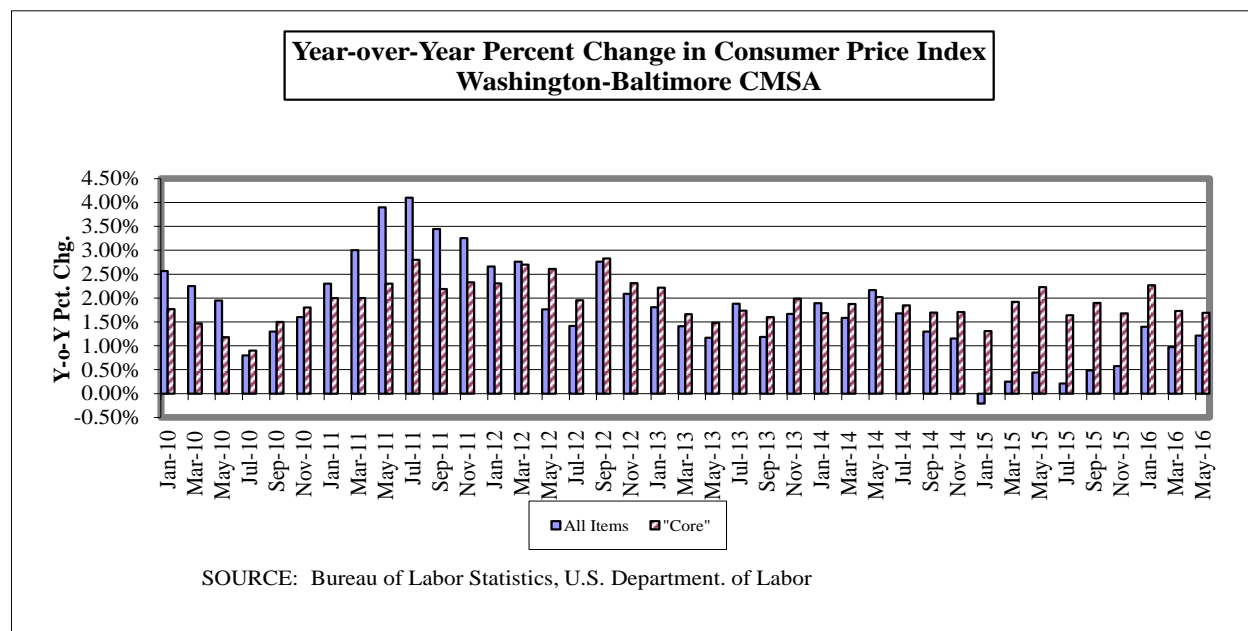


The resale housing market across the region experienced growth in prices, on a year-over-year basis, between May 2015 and May of this calendar year. Based on the S&P/Case-Shiller® Home Price Index for the Washington region, prices in May increased 2.4 percent over the twelve-month period.

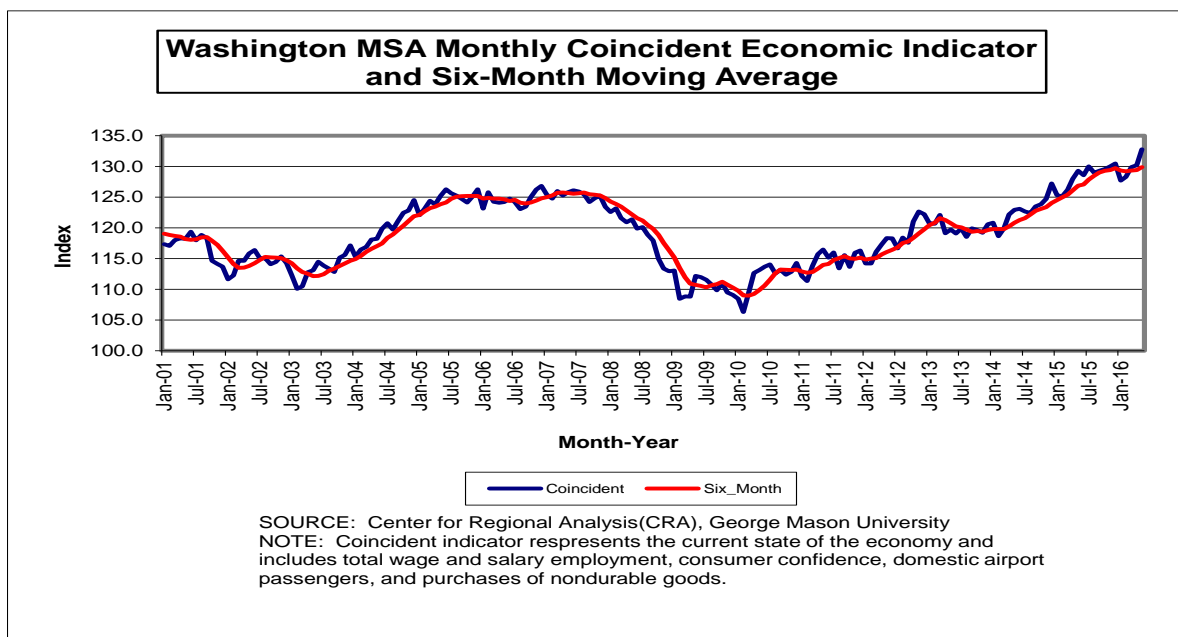


As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore region increased 1.2 percent on a year-over-year basis in May of this year

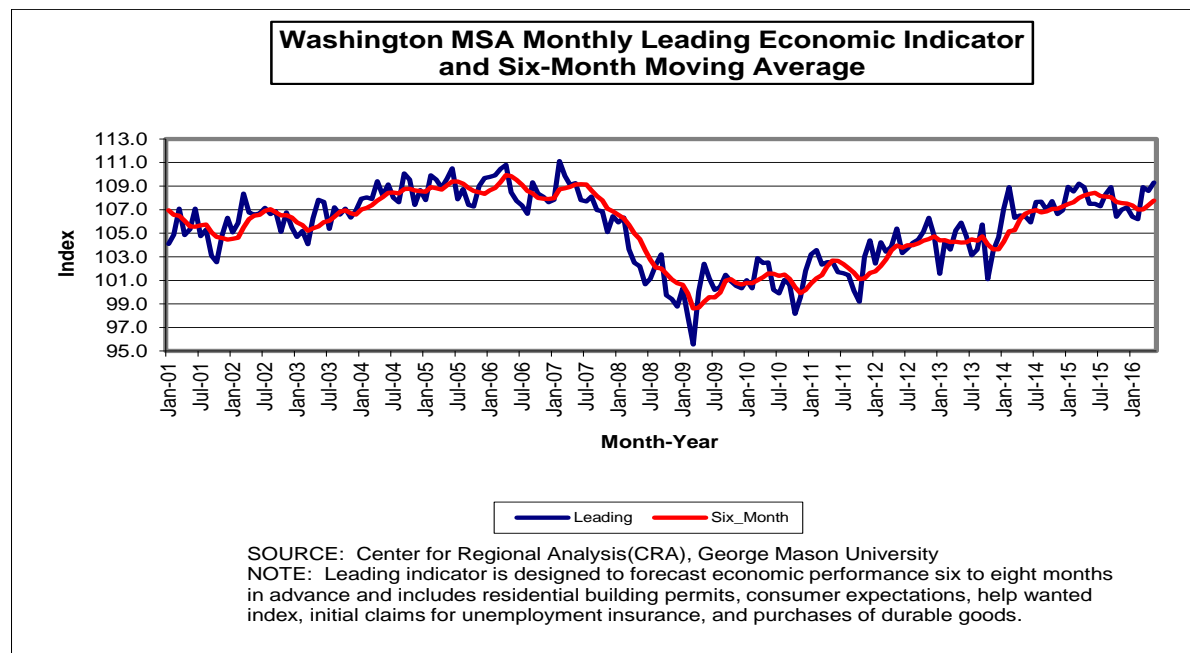
over May 2015. Consumer prices excluding food and energy purchases were up 1.7 percent in the region (on the same year-over-year basis).



According to the Center for Regional Analysis (CRA) at George Mason University, the monthly coincident economic indicator for the Washington metropolitan region increased 2.0 percent from April to May and increased 2.7 percent over May of 2015. The coincident index measures the current performance of the region's economy. Since reaching its lowest point in February 2010, the index increased 24.9 percent through May.



While the coincident indicator increased in May, CRA also reported that the leading economic indicator increased 0.6 percent from April to May and increased 1.7 percent since May 2015. The leading index measures the economic performance of the region six months ahead. The index has increased 14.4 percent since its lowest level in March 2009.

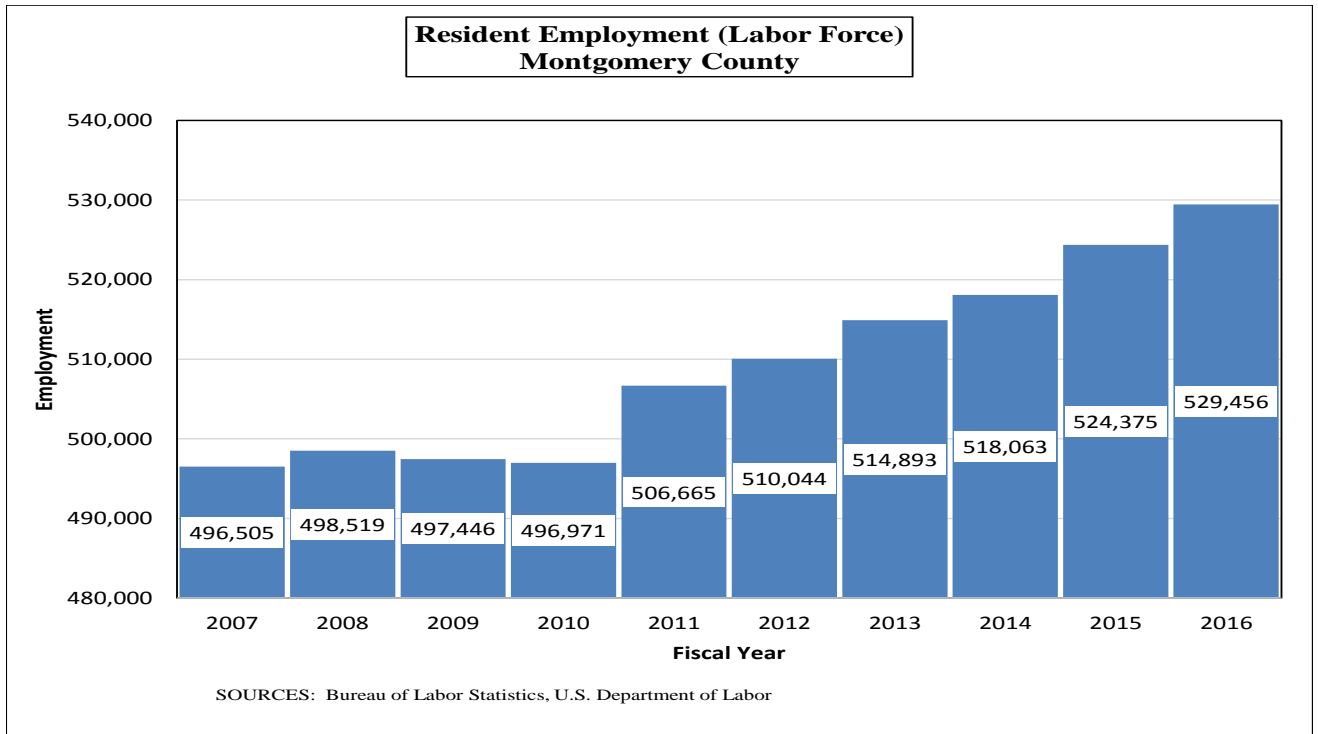


MONTGOMERY COUNTY ECONOMIC INDICATORS

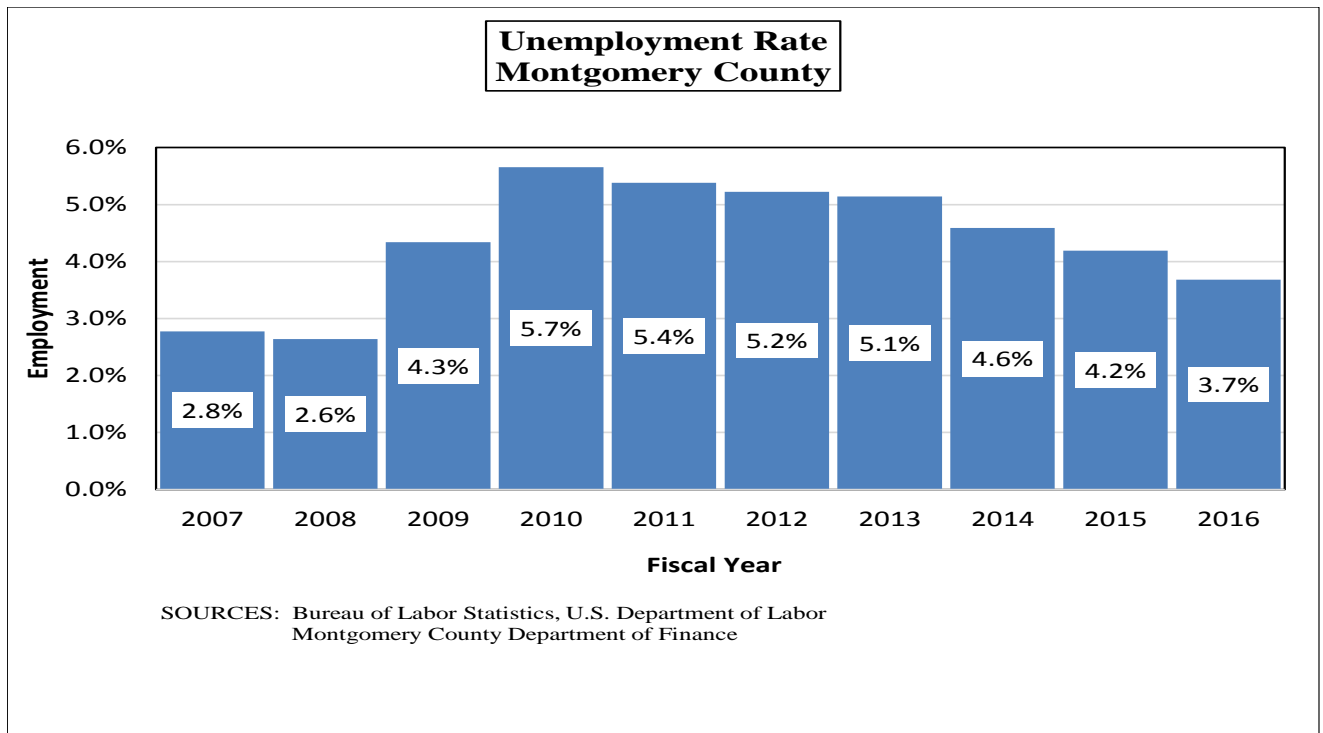
Montgomery County's economy experienced a mixed economic performance during the second quarter of this year. The reasons for a mixed performance include an increase in resident employment, a decline in the unemployment rate, an increase in existing home sales, an increase in median prices for an existing home, and an increase on non-residential construction. However, residential construction experienced a significant decline during the second quarter.

Employment Situation

Based on data from the Maryland Department of Labor, Licensing and Regulation (DLLR) and the Bureau of Labor Statistics, U.S. Department of Labor, and estimates calculated by the Department of Finance (Finance), the County's resident employment for the second quarter increased by less than 1,200 from the second quarter of 2015 ($\uparrow 0.2\%$). On a fiscal year basis, resident employment stood at 529,456 in fiscal year 2016 compared to 524,375 during the previous fiscal year – an increase of 1.0 percent.

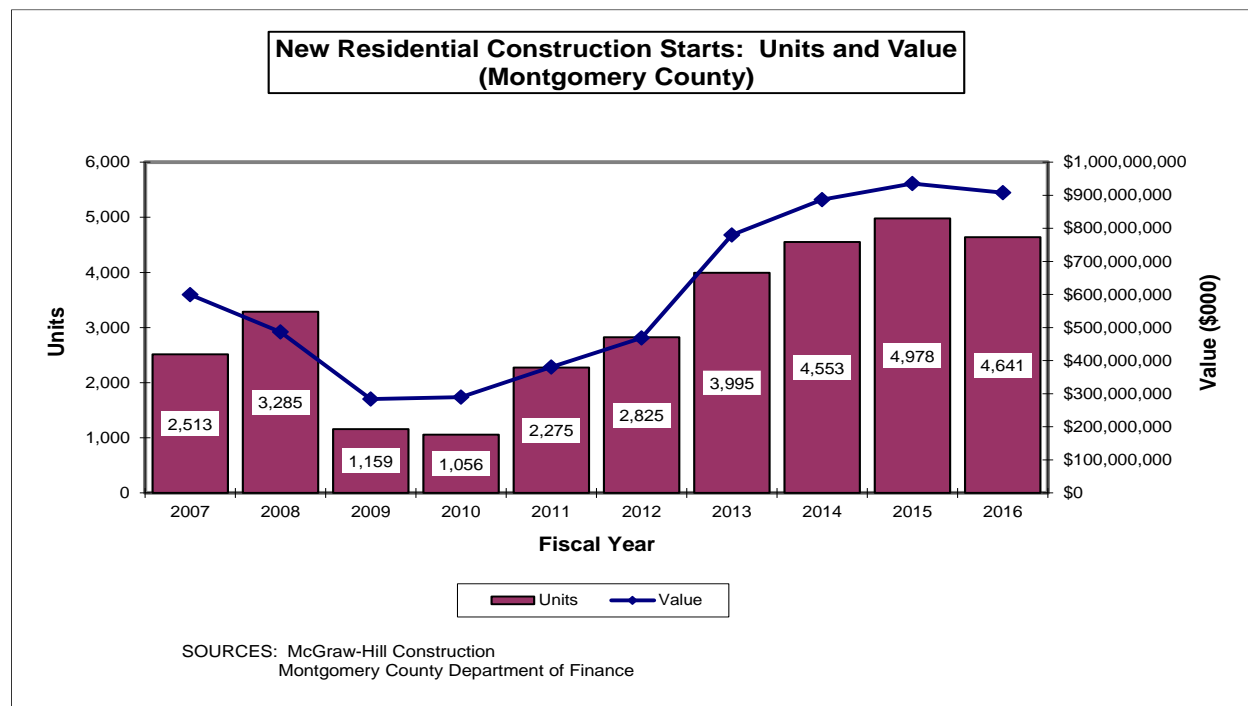


The County's average monthly unemployment rate during the second quarter declined to 3.4 percent compared to 4.0 percent in the second quarter of 2015 and declined from 4.2 percent in fiscal year 2015 to 3.7 percent in fiscal year 2016. Throughout fiscal year 2016, the County's unemployment rate remained one of the lowest in the State.



Construction Activity

After experiencing a weak second quarter performance in 2015 construction of residential units experienced a significant decline during the second quarter of 2016 (↓41.2%). The decrease was attributed to a decline in both single-family units (↓36.5%) and multi-family units (↓46.6%). Residential construction starts added a total value of \$140.4 million during the second quarter compared to \$233.7 million during the second quarter of last year (↓39.9%). On a fiscal year basis, the number of new residential construction starts decreased 6.8 percent in fiscal year 2016 and the total value added was \$980.1 million which was 2.9 percent below FY2015.



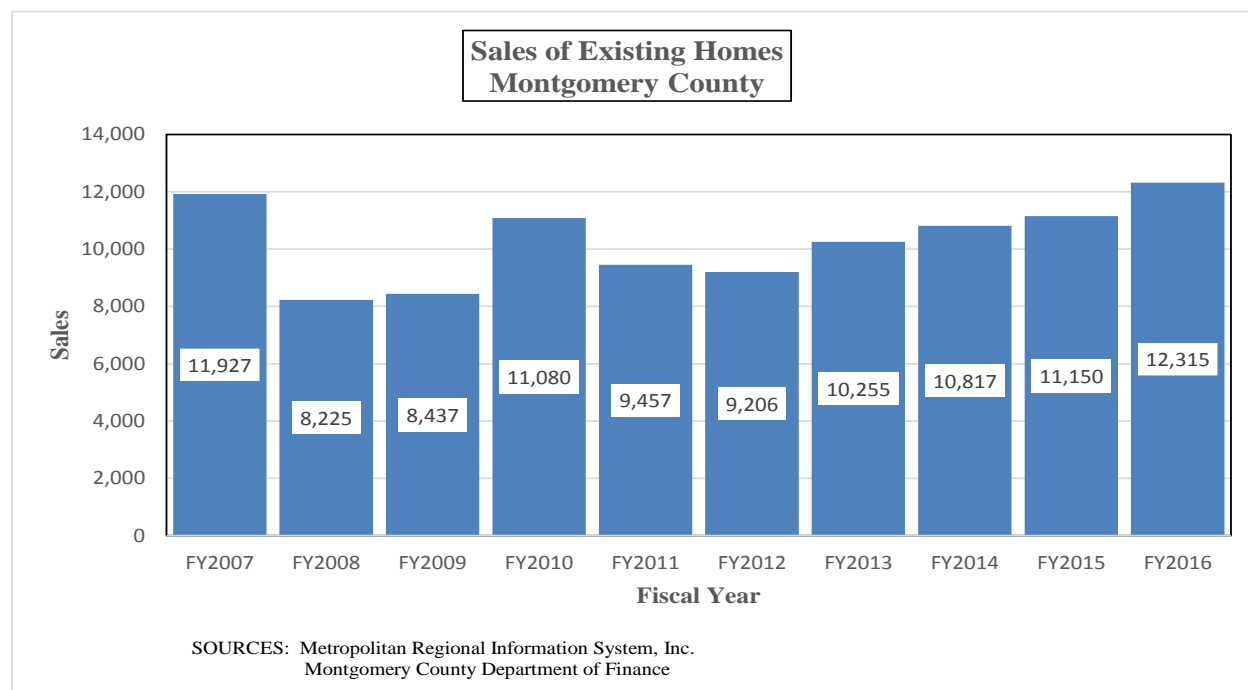
During the second quarter of 2016, the number of non-residential starts (projects) more than tripled (↑240.0%) from the second quarter of 2015 and the total value increased from \$86.6 million to \$116.0 million (↑33.7%). On a fiscal year basis, the number of non-residential projects increased 26.8 percent and the total added value increased from \$591.8 million to \$644.0 million from fiscal year 2015 to fiscal year 2016 – an increase of 8.8 percent.

Residential Real Estate

During the second quarter of this calendar year, existing home sales increased 9.9 percent on a year-over-year basis following an increase of 12.1 percent during the second quarter of 2015, an increase of 14.4 percent during the third quarter of 2015, an increase of 8.1 percent during the fourth quarter of 2015, and an increase of 8.5 percent during the first quarter of 2016. The consecutive increases during the past five quarters suggest a strong rebound in the County's real estate market attributed to low mortgage rates and a positive outlook in employment. Median sales prices for existing homes increased 2.1 percent during the second quarter 2016 following

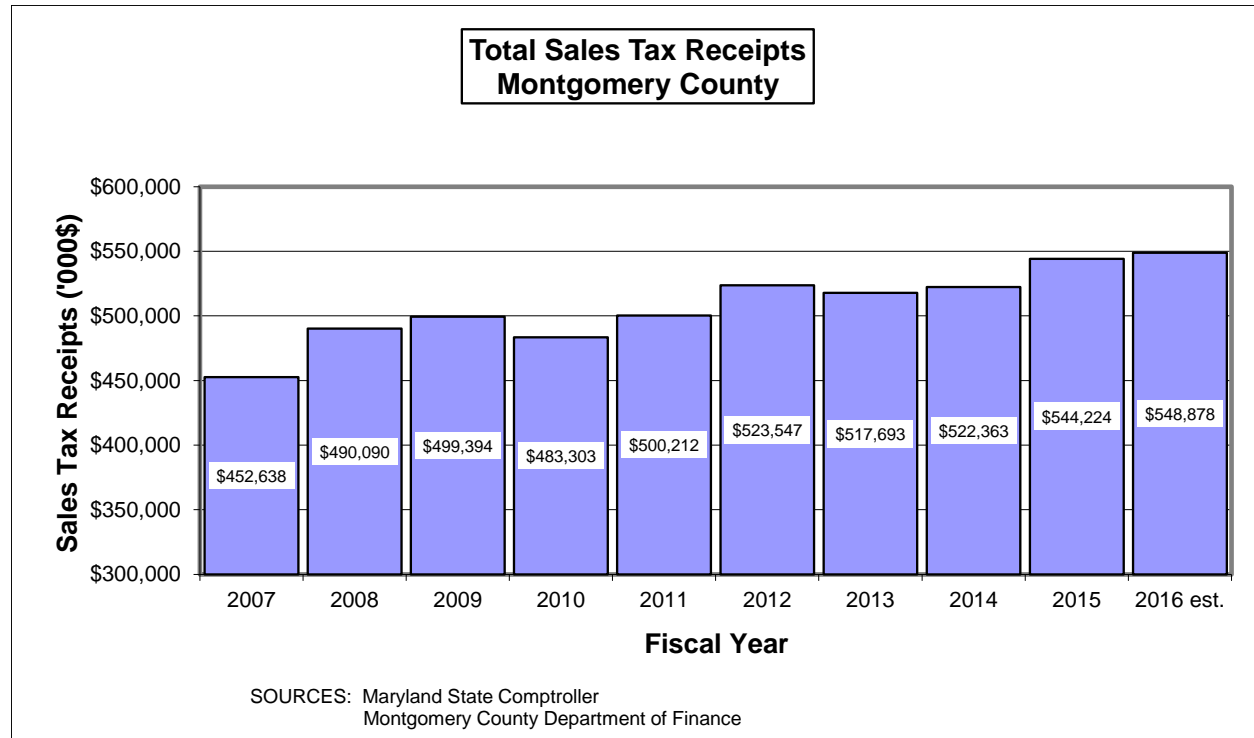
decreases of 0.1 percent during the second quarter of 2015, 1.5 percent during the third quarter of 2015, 0.4 percent during the fourth quarter of 2015, and 1.2 percent during the first quarter of 2016.

Despite an improvement in home sales during five consecutive quarters and home sales on a fiscal year basis increasing 10.4 percent in fiscal year 2016, the average of the monthly median sales prices for an existing home decreased 0.1 percent in fiscal year 2016.



Retail Sales

Using sales tax receipts as a measure of retail sales activity in the County, retail sales increased an estimated 0.9 percent during fiscal year 2016 based on data through May 2016. In the estimate for FY2016, purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, decreased 0.5 percent during this period while sales of durable goods were up 3.6 percent. The decrease in nondurable goods purchases was largely attributed to the decrease in purchases of apparel (↓0.5%), general merchandise (↓0.6%), and utilities/transportation (↓11.8%), while the increase in purchases of durable goods was primarily attributed to an increase in building and industrial supplies (↑9.3%).



CONCLUSION

The major economic indicators confirm that the County's economy experienced mixed economic performance during the second quarter of this year compared to the same period in 2015. Employment measured by the survey of households increased 0.4 percent. The unemployment rate declined from 4.0 percent during the second quarter of 2015 to 3.5 percent for the second quarter of this year. However, residential construction decreased with the construction of single-family homes down 36.5 percent and construction of multi-family units decreased 46.6 percent. Sales of existing homes increased 9.9 percent and median prices were up 2.1 percent during the second quarter compared to the second quarter of last year.

While the data for the second quarter suggests a mixed performance in the County's economy during this period, data on a fiscal year basis, however, suggest that the economy experienced growth in the period July 2015 to June 2016 particularly in employment and home sales.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		Annual 2015
				2016	2015	
Leading Indicators						
National	June '16	0.3%		n.m.	n.m.	n.m.
Maryland	June '16	2.7%		2.7%	1.9%	2.0%
Washington MSA	May '16	0.6%		-0.7%	1.5%	0.8%
Coincident Indicators						
National	June '16	0.3%		n.m.	n.m.	n.m.
Maryland	June '16	0.6%		4.9%	3.6%	3.9%
Washington MSA	May '16	0.9%		2.6%	4.8%	4.5%
Consumer Confidence Index						
National	July '16	-0.1%		-2.0%	17.4%	12.7%
South Atlantic Region	July '16	-5.6%		3.1%	16.8%	13.5%
Consumer Sentiment (University of Michigan)	July '16	-3.7%		-3.1%	15.6%	10.5%
Consumer Price Index						
All Items (nsa)						
National	June '16	1.0%		1.1%	-0.1%	0.1%
Washington - Baltimore CMSA	May '16	1.2%		1.2%	0.2%	0.3%
Core CPI (nsa)						
National	June '16	2.3%		2.2%	1.7%	1.8%
Washington - Baltimore CMSA	May '16	1.7%		1.9%	1.8%	1.8%
Retail Trade						
National (sales - nsa)	June '16	3.1%		3.2%	2.2%	2.1%
Maryland (sales tax)(1)	May '16	-0.2%		1.9%	4.7%	4.1%
Montgomery County (sales tax)(1)	May '16	-0.7%		-1.1%	4.6%	3.4%
Employment						
Maryland (labor force data - nsa)	June '16	3,049,199	3,008,048	3,012,617	2,970,031	2,988,101
- Percent Change		1.4%		1.4%		1.4%
Silver Spring-Frederick-Rockville (labor force data)	June '16	657,298	654,374	653,406	648,208	648,623
- Percent Change		0.4%		0.8%		1.7%
Montgomery County (labor force data)	June '16	532,058	529,843	529,221	525,330	525,219
- Percent Change		0.4%		0.7%		1.7%
Montgomery County (QCEW)(2)	Dec. '15	465,978	463,276	n.a.	n.a.	458,936
- Percent Change		0.6%				0.7%
Unemployment						
Maryland (nsa)	June '16	4.5%	5.4%	4.6%	5.4%	5.2%
Silver Spring-Frederick-Rockville (labor force data)	June '16	3.7%	4.4%	3.6%	4.2%	4.1%
Montgomery County (nsa)	June '16	3.7%	4.3%	3.5%	4.1%	4.0%
Construction						
Construction Starts - Montgomery County						
Total (\$ thousands)	May '16	\$148,574	\$33,629	\$491,192	\$443,271	\$1,574,258
- Percent Change		341.8%		10.8%		9.2%
Residential (\$ thousands)	May '16	\$72,676	\$23,354	\$262,708	\$226,025	\$855,884
- Percent Change		211.2%		16.2%		-11.6%
Non-Residential (\$ thousands)	May '16	\$75,898	\$10,275	\$228,484	\$217,246	\$718,374
- Percent Change		638.7%		5.2%		51.9%
Building Permits (Residential)						
Maryland	May '16	2,654	1,494	7,713	6,089	16,149
- Percent Change		77.6%		26.7%		-6.9%
Montgomery County (units)	May '16	1,385	110	2,366	572	2,025
- Percent Change		1159.1%		313.6%		-47.0%
Building Permits (Non-Residential)						
Montgomery County	June '16	194	230	1,016	935	2,019
- Percent Change		-15.7%		8.7%		7.1%
Construction Cost Index						
Baltimore	July '16	7,310.43	6,847.42	7,189.02	6,958.77	6,943.79
		6.8%		3.3%		0.0%
Real Estate						
Case-Shiller Home Price Index*(nsa)						
	May '16	216.01	210.94	211.25	207.66	209.95
		2.4%		1.7%		1.1%
Maryland						
Sales	June '16	8,953	8,081	38,593	34,097	73,044
- Percent Change		10.8%		13.2%		16.3%
Median Price	June '16	\$291,892	\$281,205	\$262,242	\$253,774	\$261,002
- Percent Change		3.8%		3.3%		0.0%
Montgomery County						
Sales	June '16	1,532	1,393	6,127	5,601	12,191
- Percent Change		10.0%		9.4%		11.1%
Average Price	June '16	\$546,394	\$529,011	\$501,290	\$492,594	\$501,305
- Percent Change		3.3%		1.8%		-0.5%
Median Price	June '16	\$435,000	\$425,000	\$397,833	\$395,567	\$400,000
- Percent Change		2.4%		0.6%		0.0%
Average Days on the Market	June '16	44	41	62	62	57

NOTES:

(n.m.): not meaningful

(nsa): not seasonally adjusted

(n.a.): not available

(1): Data include miscellaneous and assessment collections.

(QCEW): Quarterly Census of Employment and Wages

(2) SOURCE: Bureau of Labor Statistics, U.S. Department of Labor